

Financial Aspects of Unemployment Compensation Experience

By Louis Levine and E. R. Lerner, Division of Research and Statistics, Bureau of Employment Security, Social Security Board

THE widespread public interest in unemployment compensation experience of the Federal-State system was reflected in two points of view which were expressed during the recent Congressional hearings. The Special Senate Committee on Unemployment and Relief evidenced interest as to the adequacy of unemployment compensation benefits both with regard to amount and duration and the relation of the unemployment compensation program to other programs affecting unemployed workers. Its proposals were directed toward liberalizing benefits by shortening the waiting period, increasing the weekly benefit amount, and lengthening the duration of benefits, through the establishment of minimum standards in Federal legislation. The Social Security Act does not now prescribe standards for the States relating to various elements of the benefit formula.

In the House Ways and Means Committee and the

Senate Finance Committee, study was given to the size of unemployment compensation reserves accumulating to the credit of individual States, with a consequent pressure for a general reduction in contribution rates. Table 1 summarizes the financial experience by States as of June 30, 1939. Although most existing State legislation provides for varying individual employer contribution rates (experience rating) in accordance with past employment experience, adjustments of such rates cannot become effective in most States for several years because of requirements in the Federal act. Aside from these provisions, any State-wide reductions in contribution rates would, because of the Federal tax-offset provisions, result in no net reduction in contribution payments made by subject employers. Since the employer is required to pay the difference between the State contribution rate and the 3-percent Federal tax to the Federal Government, merely a larger proportion of the Federal tax would flow into the Bureau of Internal Revenue.

The considerations relating to liberalization of the benefit provisions on the one hand and reduction in contribution rates on the other, resulted in the proposal of the so-called Massachusetts or McCormack Plan to the House Ways and Means Committee, which was incorporated in H. R. 6635. This plan made State-wide reduction in contribution rates possible by allowing additional credit in tax-offset provisions of the Federal Act. As a prerequisite to State-wide rate reductions, a State must have accumulated a reserve equivalent to 1½ times its largest annual contributions or benefit payments, whichever was higher in the preceding 10 years, and at the same time have met certain minimum standards for benefit provisions relating to waiting period, amount and duration of benefits, and partial unemployment benefits. The proposals regarding the establishment of minimum benefit standards in the Federal act as a condition to additional credit under the tax-offset provisions if State contribution rates were reduced, represented a new approach to the problem of financing unemployment compensation. Although the Massachusetts plan was not enacted, the conference committee's report stated that a comprehensive study of the subject matter should be undertaken.

The proposal to limit unemployment compensation contributions to the first \$3,000 of annual wages was enacted. This limitation, already in effect in old-age insurance, provides a uniform tax base for both social insurance programs insofar as coverage is the same.

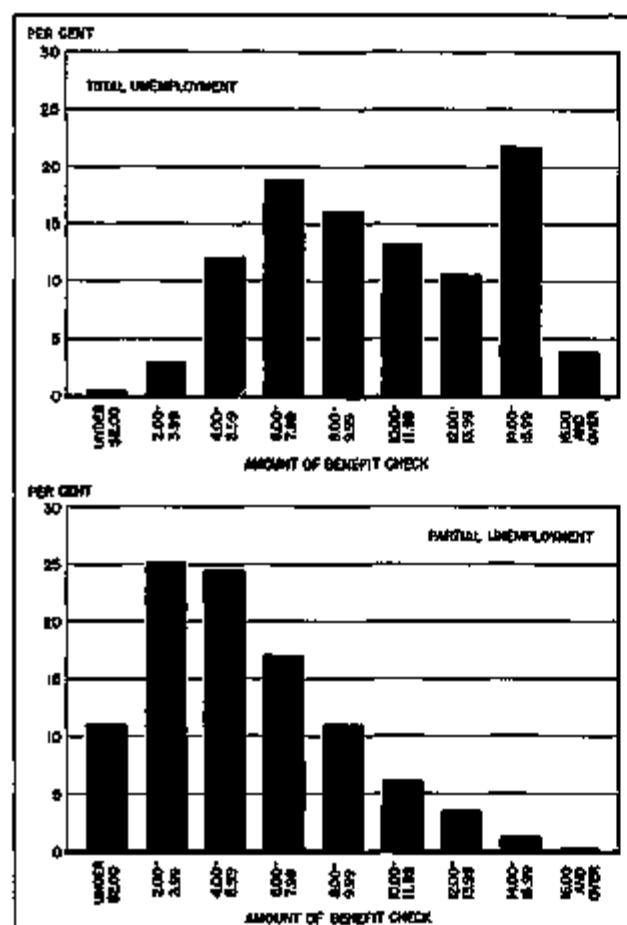


Figure 4.—Distribution of Number of Benefits for Total and Partial Unemployment, by Amount of Benefit Check, April-June 1939.

It is estimated that this new limitation, if adopted by all States, would result in savings to employers and a reduction in unemployment compensation revenues of approximately \$85,000,000, or about 7.5 percent of total annual contributions.

The Federal-State program of unemployment compensation, coordinated with employment service facilities, is the permanent Federal program aimed at meeting the problem of intermittent unemployment. Consequently, the unemployment compensation program

Table 1.—State Unemployment Compensation Funds Available for Benefits, Cumulative Collections and Interest, and Benefits Charged, by States Collecting Quarterly, as of June 30, 1939

(Amounts in thousands)

| State | Month and year benefits first payable | Total funds available for benefits as of June 30, 1939 | | Cumulative collections and interest credited as of June 30, 1939. Total collections and interest | Collections, January-June 1939 | Benefits charged | | Relation of payments to contributions (percent) | | |
|------------------------------------|---------------------------------------|--|-------|--|--------------------------------|--|-------------------|---|--|-------------------------------------|
| | | Amount | Index | | | Cumulative total through June 30, 1939 | January-June 1939 | Total benefits to cumulative collections and interest | Cumulative payments to contributions received since benefits first payable | 1939 benefits to 1938 contributions |
| Total, all States | | \$1,139,379 | 135.4 | \$1,704,444 | \$367,587 | \$635,908 | \$220,135 | 36.4 | 79.5 | 63.9 |
| States collecting quarterly, total | | 656,605 | 136.1 | 1,500,420 | 316,151 | 515,725 | 204,730 | 28.3 | 70.9 | 64.6 |
| Alabama | January 1938 | 9,514 | 107.5 | 10,884 | 4,260 | 30,370 | 2,243 | 59.2 | 86.4 | 52.8 |
| Alaska | January 1939 | 842 | 85.1 | 1,007 | 173 | 235 | 235 | 21.1 | 130.5 | 130.5 |
| Arizona | January 1938 | 2,248 | 111.5 | 4,988 | 1,124 | 2,740 | 836 | 54.0 | 84.2 | 74.6 |
| Arkansas | January 1938 | 6,185 | 114.5 | 7,185 | 1,750 | 1,000 | 1,000 | 14.0 | 86.9 | 50.9 |
| California | January 1938 | 127,242 | 180.4 | 171,290 | 38,422 | 43,974 | 20,249 | 26.7 | 43.7 | 52.7 |
| Colorado | January 1938 | 9,467 | 106.8 | 11,620 | 2,505 | 2,155 | 3,189 | 18.6 | 84.2 | 84.2 |
| Connecticut | January 1938 | 21,743 | 142.1 | 37,062 | 8,284 | 15,309 | 3,055 | 41.8 | 72.3 | 88.8 |
| Delaware | January 1939 | 4,773 | 121.9 | 5,171 | 1,202 | 808 | 988 | 7.7 | 59.1 | 83.1 |
| Florida | do | 12,658 | 125.5 | 13,473 | 3,452 | 775 | 775 | 5.8 | 22.4 | 22.4 |
| Idaho | September 1938 | 2,412 | 80.2 | 4,581 | 973 | 2,189 | 1,592 | 47.3 | 144.9 | 186.6 |
| Indiana | April 1938 | 27,262 | 180.5 | 40,065 | 10,404 | 22,703 | 4,336 | 45.4 | 127.7 | 55.9 |
| Iowa | July 1938 | 12,051 | 120.9 | 18,327 | 4,190 | 6,226 | 3,508 | 34.2 | 77.5 | 55.7 |
| Kansas | January 1939 | 17,029 | 114.3 | 13,149 | 3,831 | 1,519 | 1,519 | 11.5 | 53.7 | 53.7 |
| Kentucky | do | 21,970 | 118.9 | 26,974 | 5,382 | 3,004 | 3,004 | 12.0 | 53.0 | 53.0 |
| Maine | January 1938 | 2,656 | 68.8 | 9,041 | 2,022 | 4,485 | 1,850 | 71.7 | 126.0 | 86.4 |
| Maryland | do | 12,096 | 123.5 | 25,508 | 6,047 | 18,403 | 3,340 | 52.7 | 83.5 | 63.4 |
| Massachusetts | do | 88,905 | 145.9 | 98,193 | 18,600 | 37,228 | 13,159 | 37.9 | 68.3 | 64.3 |
| Michigan | July 1938 | 44,470 | 70.3 | 104,938 | 22,817 | 55,486 | 16,506 | 55.9 | 154.4 | 72.6 |
| Minnesota | January 1938 | 18,224 | 182.8 | 31,018 | 7,127 | 15,394 | 5,233 | 42.4 | 69.8 | 73.4 |
| Mississippi | April 1938 | 3,420 | 117.6 | 5,725 | 824 | 2,287 | 822 | 48.1 | 84.5 | 95.6 |
| Missouri | January 1939 | 41,533 | 122.0 | 44,480 | 9,898 | 2,686 | 2,605 | 8.0 | 26.7 | 26.7 |
| Nebraska | do | 5,328 | 117.7 | 9,105 | 2,023 | 302 | 302 | 9.4 | 43.6 | 43.6 |
| Nevada | do | 1,588 | 104.0 | 2,020 | 472 | 423 | 423 | 20.8 | 89.4 | 89.4 |
| New Jersey | do | 81,418 | 122.1 | 100,249 | 32,658 | 8,824 | 8,824 | 9.8 | 39.9 | 39.9 |
| New Mexico | December 1938 | 2,594 | 106.5 | 3,260 | 727 | 646 | 646 | 18.6 | 37.3 | 37.3 |
| New York | January 1938 | 143,077 | 144.4 | 270,401 | 48,404 | 132,514 | 45,188 | 47.5 | 70.5 | 60.9 |
| Ohio | January 1939 | 114,385 | 110.9 | 130,325 | 37,068 | 12,499 | 12,499 | 8.6 | 45.1 | 45.1 |
| Oklahoma | December 1938 | 12,650 | 102.4 | 15,770 | 2,340 | 2,826 | 2,790 | 17.8 | 97.3 | 117.5 |
| Pennsylvania | January 1938 | 78,662 | 111.9 | 162,868 | 30,231 | 103,441 | 31,885 | 58.7 | 94.7 | 81.1 |
| Rhode Island | do | 7,068 | 90.4 | 19,769 | 3,420 | 12,113 | 2,830 | 51.3 | 104.5 | 82.3 |
| South Dakota | January 1939 | 2,982 | 115.0 | 2,582 | 573 | 280 | 280 | 11.2 | 50.2 | 50.2 |
| Tennessee | January 1938 | 10,781 | 138.5 | 19,300 | 4,405 | 3,325 | 2,862 | 44.2 | 75.9 | 63.9 |
| Utah | do | 2,015 | 102.1 | 5,088 | 1,351 | 8,468 | 1,000 | 37.0 | 100.7 | 74.5 |
| Virginia | do | 13,924 | 102.4 | 22,304 | 5,159 | 8,280 | 2,044 | 37.3 | 61.5 | 51.9 |
| Washington | January 1938 | 18,209 | 103.8 | 22,892 | 3,775 | 3,638 | 3,638 | 15.9 | 96.2 | 86.2 |
| Wyoming | do | 2,570 | 89.0 | 3,135 | 706 | 750 | 750 | 24.2 | 107.7 | 107.7 |
| States collecting monthly, total | | 162,481 | 153.8 | 264,024 | 51,375 | 81,348 | 24,419 | 30.2 | 58.4 | 47.5 |
| District of Columbia | January 1939 | 12,534 | 231.3 | 16,160 | 3,588 | 2,535 | 543 | 15.8 | 23.5 | 24.0 |
| Georgia | January 1939 | 15,706 | 126.7 | 20,287 | 4,806 | 1,499 | 1,499 | 7.4 | 33.3 | 33.3 |
| Hawaii | do | 4,020 | 124.3 | 4,127 | 833 | 86 | 86 | 2.1 | 10.6 | 10.6 |
| Louisiana | January 1938 | 14,402 | 189.0 | 21,905 | 5,025 | 7,039 | 3,630 | 34.3 | 54.0 | 70.2 |
| New Hampshire | do | 4,814 | 113.4 | 6,473 | 1,233 | 4,904 | 872 | 42.3 | 89.6 | 68.8 |
| North Carolina | do | 14,169 | 122.5 | 25,188 | 6,644 | 10,030 | 2,729 | 43.6 | 71.4 | 49.1 |
| North Dakota | January 1939 | 2,681 | 100.7 | 2,467 | 280 | 370 | 370 | 15.3 | 70.5 | 70.5 |
| Oregon | January 1938 | 5,044 | 113.5 | 15,294 | 3,226 | 8,660 | 2,733 | 56.0 | 93.6 | 84.7 |
| South Carolina | July 1938 | 9,096 | 145.1 | 10,577 | 2,319 | 1,782 | 1,782 | 18.4 | 40.8 | 51.2 |
| Texas | January 1938 | 38,885 | 167.4 | 54,221 | 11,683 | 15,235 | 6,891 | 25.1 | 45.6 | 50.3 |
| Vermont | do | 2,407 | 174.7 | 3,062 | 703 | 1,185 | 343 | 32.4 | 84.4 | 47.6 |
| West Virginia | do | 9,840 | 94.3 | 24,241 | 4,886 | 14,901 | 2,330 | 59.4 | 104.4 | 48.0 |
| Wisconsin | July 1938 | 43,742 | 144.4 | 57,271 | 7,287 | 13,520 | 1,075 | 23.5 | 48.4 | 27.2 |

* Represents sum of balances at end of month in State clearing account, benefit-payment account, and unemployment trust fund account maintained in the U. S. Treasury.

* For all States except Wisconsin, index is based upon funds available for benefits as of end of month prior to that in which benefits were first payable; Wisconsin index is based on funds available as of Dec. 31, 1937.

* Includes refund of \$40,440,386 by Federal Government to 16 States, Alaska, and Hawaii, collected on pay rolls for year 1936 under title IX of the Social Security Act.

* Employer contributions of 2.7 percent are collected in all States except the District of Columbia, Michigan, and New York. In those States the rate is 3 percent.

* Does not include collections and interest of \$154,175,080 for Illinois and \$8,224,040 for Montana, because benefits not payable until July 1938.

* Employee contributions of 1 percent are collected in Alabama, California, Kentucky, and New Jersey; of 0.5 percent in Louisiana; and of 1.5 percent in Rhode Island.

* Employee contributions in Massachusetts were suspended from July 1, 1938-June 30, 1939.

* Mississippi, New York, and Washington changed to a quarterly collection basis as of Apr. 1, 1938.

* New Hampshire will make quarterly collections as of July 1, 1939, although some contributions have already been made on that basis from selected employers.

* Based on contributions received and payments charged since January 1938.

should be viewed as a long-range approach to the unemployment problem with regard to present needs and future obligations. This consideration, perhaps more than any other, led the Social Security Board to point out that unemployment compensation experience was so limited as to provide no satisfactory basis for reducing contribution rates, especially when increasing recognition of the need for more adequate benefits is becoming widespread.¹

Unlike many other forms of social insurance, unemployment compensation is highly dynamic, because it must be adjusted to a changing labor market in which sharp employment fluctuations occur within relatively brief periods of time. Since the unemployment risk is current, the necessity for providing a reserve against the time when the unemployment fund will experience severe drains has never been questioned. The unemployment compensation reserve fund is regarded as a contingency reserve to meet the impact of unemployment during periods of declining business without having to reduce benefit payments or increase current contribution rates. This view of the unemployment compensation reserve explains the provisions in the Federal act which required that contributions be collected for 2 years before benefit payments were inaugurated. If the concept of the unemployment compensation reserve is sound, it may be questioned

whether the financial structure of unemployment compensation should be greatly modified before experience extending over a period equivalent to that comprehended by the business cycle is accumulated. When, in addition to the need for a reserve, account is taken of the wide diversity in economic resources and patterns of employment among the several States, the desirability of a cautious approach to general downward revisions of contribution rates becomes even more evident. In this connection, a review of the brief history of the unemployment compensation system is illuminating.

By the middle of 1937, all States, the District of Columbia, Hawaii, and Alaska had enacted unemployment compensation laws, but only Wisconsin, which had begun benefit payments in July 1936, had experience with both contribution collections and benefit payments. Not until January 1938, when benefits became payable in 22 additional States, did the comprehensive unemployment compensation program begin to get underway. Other States entered the benefit-paying group at different times during 1938, so that by the close of the year 31 jurisdictions were paying benefits. In January 1939, 18 others began paying benefits. Illinois and Montana, the remaining 2 States, began in July.

The financial experience in unemployment compensation can be examined best by analyzing the records of 23 States which have paid benefits for at least 18 months. Figure 5 shows the summary experience, and

¹ Figure 4 shows the distribution of weekly benefit amounts.

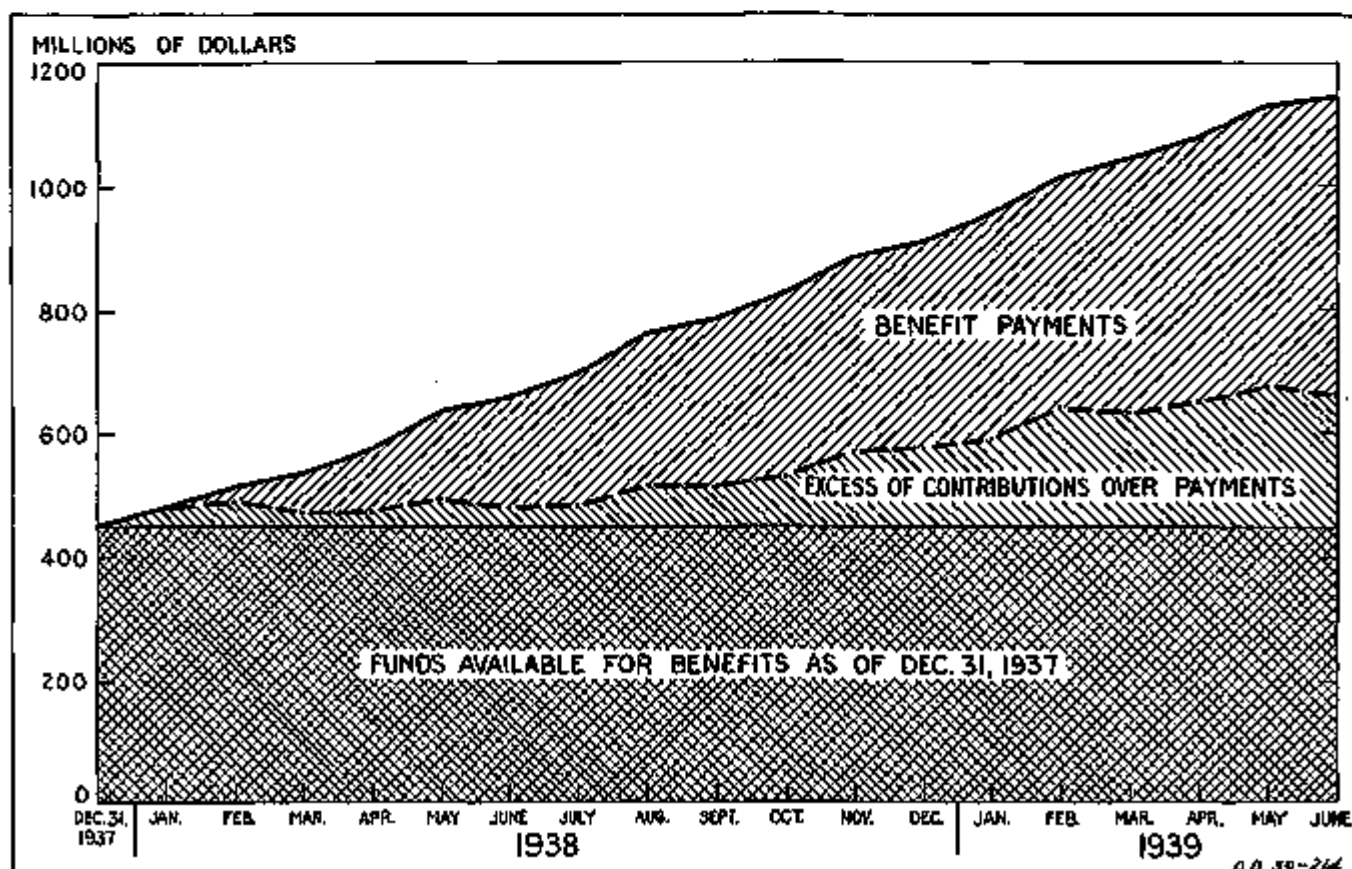


Figure 5.—Unemployment Compensation: Cumulative Collections and Interest, Cumulative Benefit Payments, and Funds Available for Benefits, as of End of Month in 23 States, January 1938-June 1939.

figure 6 the quarterly experience of these States. At the close of December 1937, these States² had approximately \$450,000,000 available for benefits with over half of this amount credited to 3 States—California, New York, and Pennsylvania. Table 2 lists the States and the amount of funds available for benefits in each, prior to January 1, 1938. Except for relatively small amounts in transit or on deposit in State clearing accounts, practically all of these funds had been deposited with the United States Treasury in the unemployment trust fund to the credit of the respective State unemployment compensation agencies. In addition

Table 2.—Funds Available as of December 31, 1937, for States Paying Benefits as of January 1938

| States paying benefits as of January 1938 | Funds available for benefits as of— | | |
|---|-------------------------------------|---------------|---------------|
| | Dec. 31, 1937 | Dec. 31, 1938 | June 30, 1939 |
| Total..... | \$450,008,440 | \$576,613,707 | \$501,220,518 |
| Alabama..... | 8,838,347 | 7,409,006 | 9,514,383 |
| Arizona..... | 2,013,800 | 1,037,007 | 2,247,848 |
| California..... | 67,172,701 | 107,638,889 | 137,241,588 |
| Connecticut..... | 16,304,430 | 16,288,221 | 21,713,406 |
| District of Columbia..... | 6,893,882 | 10,787,160 | 13,634,414 |
| Louisiana..... | 7,651,864 | 12,804,802 | 14,402,113 |
| Maine..... | 3,768,947 | 2,486,727 | 2,550,122 |
| Maryland..... | 9,067,375 | 8,250,331 | 12,075,074 |
| Massachusetts..... | 41,775,282 | 61,730,133 | 60,964,706 |
| Minnesota..... | 11,023,082 | 16,127,420 | 18,234,335 |
| New Hampshire..... | 4,247,890 | 4,380,160 | 4,813,588 |
| New York..... | 53,562,706 | 126,061,807 | 143,870,850 |
| North Carolina..... | 9,412,835 | 11,106,376 | 14,108,822 |
| Oregon..... | 5,835,270 | 6,670,760 | 6,813,082 |
| Pennsylvania..... | 70,636,643 | 70,686,021 | 78,951,890 |
| Rhode Island..... | 7,030,285 | 6,100,280 | 7,045,704 |
| Tennessee..... | 7,775,830 | 8,677,000 | 10,731,183 |
| Texas..... | 19,732,701 | 32,782,612 | 26,834,245 |
| Utah..... | 2,500,160 | 2,240,440 | 2,016,421 |
| Vermont..... | 1,412,100 | 2,041,028 | 2,407,026 |
| Virginia..... | 8,307,400 | 11,265,882 | 13,324,097 |
| West Virginia..... | 10,100,770 | 7,216,933 | 9,330,517 |
| Wisconsin..... | 30,282,000 | 37,050,520 | 52,742,085 |

tion to the deposits of contributions, the State agencies are credited with interest earned on such funds which by January 1, 1938, amounted to \$6,500,000.

The decline in employment during the latter half of 1937 was one of the sharpest experienced in this country, with the volume of unemployment still increasing when benefits first became payable in January 1938. More than 2 million claims were filed during the first month, and with employment opportunities restricted, many unemployed workers were destined to draw benefits until their wage credits were exhausted.

It was subsequently contended, therefore, since unemployment compensation funds remained solvent despite the severe drains, that some consideration might reasonably be given to a reduction in the contribution rates. In this connection, there is a tendency to overlook the fact that benefits paid in 1938 did not represent what the benefits would have been in that year if all States had been paying benefits and if the employees covered by the State laws had had complete employment experience to have established their full benefit rights. No accurate estimate can be made of the in-

creased benefit payments which would have been paid to unemployed individuals had the entire employment experience during the period normally used for calculating benefit rights been available to State agencies. If all States had paid benefits throughout the year, it is estimated that an additional \$225,000,000 would have been paid out even on the basis of the incomplete period of earnings. Moreover, it is not improbable that if certain States lacking diversified industries had paid benefits throughout the year, their funds would have been almost depleted.

During the first 6 months of 1938, the 23 States paid out approximately \$176,000,000, or an average of about \$29,400,000 per month.³ Payments by these States

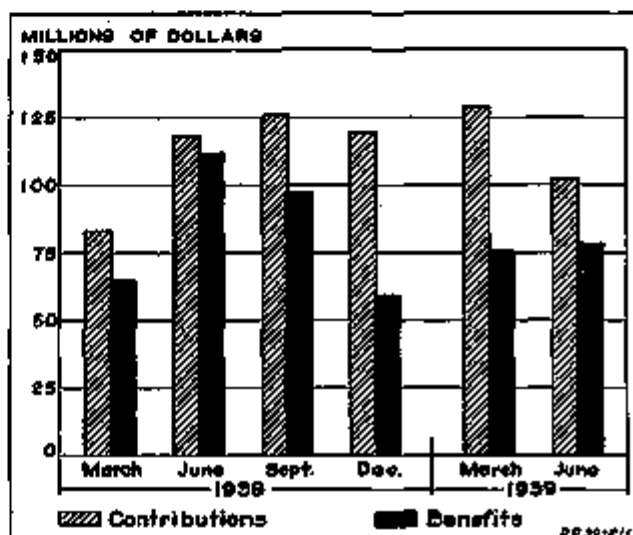


Figure 5.—Unemployment Compensation Benefit Payments and Contributions Collected in the 23 States Paying Benefits Since January 1, 1938, by Quarters.

NOTE.—The data on contributions collected represent the amounts the States have collected from employers and employees. Except for the District of Columbia, New York, and Wisconsin, the employer State contribution rate was 0.9 percent in 1935; 1.3 percent in 1937; and 2.7 percent of taxable wages in 1938 and thereafter. Employee contributions were collected in 1936 in three of these States for all or a portion of the year; in 1937, six States; in 1938, five States; and in 1939, four States.

were made at the rate of 88 cents for each dollar of contributions received during this period. In some of these States, however—especially in Maine, Rhode Island,⁴ Utah, and West Virginia, where a few industries determine the State employment pattern—severe drains were made on the funds. (See figure 7 showing the cumulative experience of West Virginia.) Current disbursements of benefits far exceeded current collection of contributions in these States. Maine paid out \$2.07; Rhode Island, \$1.65; Utah, \$1.87; and West Virginia, \$1.84 for each \$1 in contributions received during this period. By the end of June 1938 funds available for benefits in these 4 States had been reduced to between 65 and 75 percent of the reserves which had been accumulated prior to the initiation of benefit payments. In other words, about half the contribu-

² Because of waiting-period requirements, only negligible amounts were paid out in January 1938.

⁴ Rhode Island, unlike most States, has an employee contribution which by the end of June 1938 amounted to \$3,433,000.

³ Wisconsin by the end of December 1937 had paid out about \$2,203,000 in benefits.

tions collected on pay rolls covering nearly 2½ years were paid out for benefits in a little more than 5 months.⁶ Although these States experienced the most severe drains, New Hampshire, Oregon, Alabama, Arizona, Tennessee, Connecticut, and Maryland also had to draw substantially upon their reserves in order to meet benefit-payment obligations. In sharp contrast with

payments in New York, pending clarification of administrative procedures. The major reasons underlying the reduction in benefit payments, however, were the exhaustion of wage credits by workers who had drawn the maximum amounts allowed under the State laws, and the reemployment of claimants during the fall improvement in business activity.

An instance reflecting a rapid decline in reserves is afforded by Michigan, which began to pay benefits in July 1938. In that State, despite the expansion of production in its major industries, benefit payments far exceeded contributions, with nearly \$3 in benefits being paid for each \$1 in contributions received during the latter half of 1938.⁶ By the end of 1938, Michigan's reserve had been reduced about 40 percent, or, expressing this another way, 5 months of benefit payments approximated over half of the collections made at the graduated contribution rates for a 33-month period. Other States in which the reserve at the end of 1938 was 10 percent or more below the amount of funds available when benefit payments first began were Rhode Island,⁷ West Virginia, Alabama,⁷ Indiana, Maine, and Utah. Substantial increases in reserves, on the other hand, had been accumulated by the close of the year in the District of Columbia, Louisiana,⁷ New York, Texas, Vermont, and California.⁷

Benefit payments by the 31 benefit-paying States during 1938 totaled more than \$394,000,000. Of this amount, \$332,500,000 was accounted for by the 23 States in which benefits were paid throughout 1938. In these States, 74 cents in benefits was paid for each \$1 in contributions currently received.

The States initiating benefit operations in January 1939 began under conditions quite different from those prevailing in January 1938. Employment was at a higher level, procedures had been worked out carefully on the basis of the experience of earlier benefit-paying States, and personnel had been better trained. Aggregate payments for the 49 benefit-paying jurisdictions during the first 6 months of 1939 totaled \$229,100,000 with monthly payments averaging \$38,200,000. The 18 new jurisdictions accounted for 33 percent of the total paid out during the first half of this year. In all, about 62 cents was paid out for each \$1 in contributions collected during this period. Benefit payments for the group of 23 States during the first half of 1939 continued at the same level as in the last half of 1938.

Improving employment conditions during the first half of 1939 are reflected in table 3, which shows changes in the status of funds of the 49 benefit-paying jurisdictions for the first 6 months of the year. Idaho was the only State in which the funds available for benefits

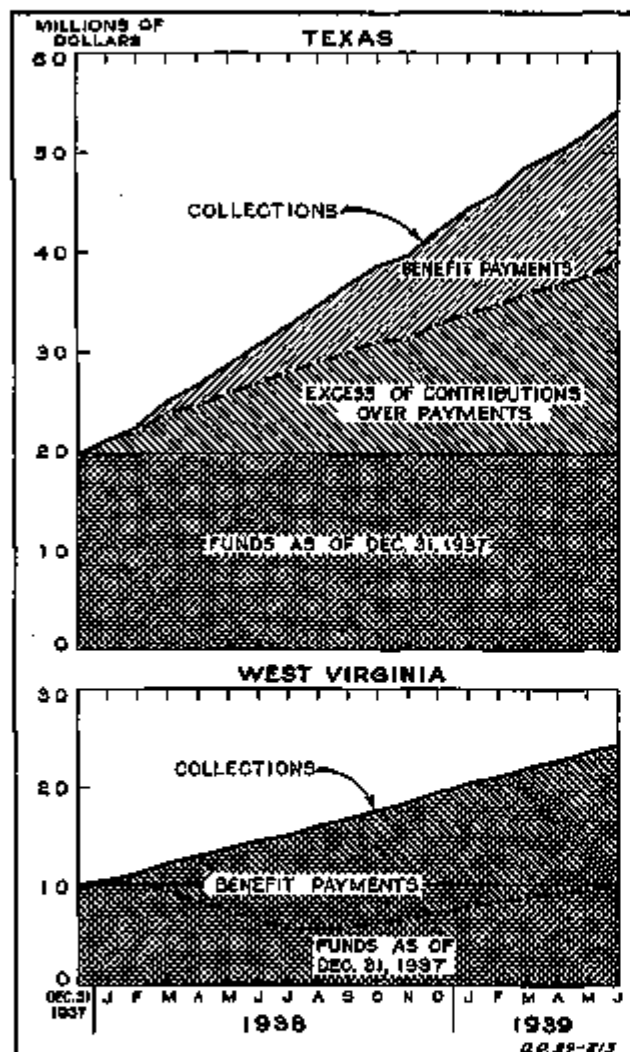


Figure 7.—Unemployment Compensation: Cumulative Collections and Interest, Cumulative Benefit Payments, and Funds Available for Benefits in Texas and West Virginia, January 1938–June 1939.

the experience of these States was that of the District of Columbia, Louisiana, Texas, and California, which added substantial amounts to their reserves because contributions currently exceeded benefit payments. (See figure 7, showing the Texas experience.)

In the second half of 1938, the drain on funds was somewhat reduced, with payments by the 23 States averaging about \$26,000,000 per month, as compared with \$29,400,000 in the first 6 months of 1938. Part of the decline was attributable to partial suspension of

⁶ The full employer contribution rate of 2.7 percent did not go into effect until January 1939. These States had employer contribution rates of 0.8 and 1.8 percent of pay rolls for 1938 and 1937, respectively. In Rhode Island, the contributions of both employers and employees were equivalent to 2.8 and 4.2 percent of pay rolls for the years 1937 and 1938, respectively.

⁷ The ratio was somewhat inflated because Michigan shifted to a quarterly collection basis on July 1, 1938. During the period July–December 1938, therefore, contributions were collected on pay rolls for June through September in addition to some delinquent receipts, but no contributions were received on fourth-quarter pay rolls until January 1939. The ratio is therefore based on 5 months of payments (only a negligible volume of payments being made in July), and more than 4 months of collections.

⁸ These States had employee contributions.

were reduced significantly during the first 6 months of 1939. On the other hand, Rhode Island and West Virginia, which had drawn on reserves rather heavily in 1938, increased their reserves throughout the period, and by the end of June the total was within 5 percent of the reserve available when benefits first became payable. In Maine, however, little recovery from the 1938 drain on reserves occurred.

In the year and a half ended June 30, 1939, during

Table 3.—Funds Available for Benefits, by States, as of December 31, 1938, and June 30, 1939

(Data corrected to Aug. 15, 1939)

| States | Funds available for benefits as of— | | Percentage change |
|----------------------|-------------------------------------|-----------------|-------------------|
| | Dec. 31, 1938 | June 30, 1939 | |
| Total | \$927,812,801 | \$1,199,892,262 | +29.3 |
| Alabama | 7,402,804 | 8,614,292 | +16.3 |
| Alaska | 884,847 | 842,016 | -4.8 |
| Arizona | 1,837,097 | 2,247,099 | +22.3 |
| Arkansas | 5,508,341 | 6,394,623 | +16.1 |
| California | 107,626,282 | 127,241,293 | +18.2 |
| Colorado | 8,044,314 | 8,467,417 | +5.3 |
| Connecticut | 18,268,321 | 21,748,465 | +18.7 |
| Delaware | 3,916,184 | 4,772,081 | +21.6 |
| District of Columbia | 10,782,160 | 12,624,414 | +17.1 |
| Florida | 8,870,616 | 12,897,612 | +45.6 |
| Georgia | 18,801,862 | 18,708,085 | -0.5 |
| Hawaii | 3,248,353 | 4,085,037 | +25.8 |
| Idaho | 8,211,248 | 2,411,962 | -70.9 |
| Illinois | 22,865,726 | 27,261,807 | +19.2 |
| Indiana | 11,445,870 | 12,091,441 | +5.6 |
| Iowa | 10,180,745 | 11,028,529 | +8.3 |
| Kansas | 18,986,288 | 21,097,365 | +11.1 |
| Kentucky | 12,804,803 | 14,462,112 | +12.9 |
| Louisiana | 2,465,727 | 2,886,122 | +17.1 |
| Maine | 8,309,281 | 12,065,074 | +45.0 |
| Maryland | 51,720,133 | 60,944,704 | +17.9 |
| Massachusetts | 27,723,004 | 44,477,820 | +60.8 |
| Michigan | 16,127,428 | 18,224,848 | +13.0 |
| Minnesota | 3,317,187 | 3,428,916 | +3.4 |
| Mississippi | 24,046,738 | 41,846,100 | +74.0 |
| Montana | 7,081,692 | 8,326,384 | +17.7 |
| Nebraska | 1,828,387 | 1,888,116 | +3.3 |
| Nevada | 4,380,160 | 4,818,488 | +10.0 |
| New Hampshire | 64,880,638 | 81,418,202 | +25.5 |
| New Jersey | 2,472,086 | 2,894,028 | +17.1 |
| New Mexico | 138,888,367 | 143,976,820 | +3.6 |
| New York | 11,184,373 | 14,168,622 | +26.6 |
| North Carolina | 1,897,244 | 2,090,967 | +10.5 |
| North Dakota | 97,824,184 | 114,888,017 | +17.5 |
| Ohio | 13,202,194 | 12,680,287 | -3.9 |
| Oklahoma | 8,078,736 | 8,642,823 | +7.0 |
| Oregon | 70,886,021 | 78,551,880 | +10.8 |
| Pennsylvania | 6,990,286 | 7,685,744 | +10.0 |
| Rhode Island | 7,862,700 | 9,081,120 | +15.5 |
| South Carolina | 1,877,064 | 2,232,082 | +19.0 |
| South Dakota | 8,877,008 | 10,781,198 | +21.4 |
| Tennessee | 23,732,512 | 26,590,216 | +12.0 |
| Texas | 2,240,445 | 2,616,421 | +16.7 |
| Utah | 2,041,628 | 2,467,026 | +20.8 |
| Vermont | 11,263,882 | 13,024,067 | +15.6 |
| Virginia | 18,890,871 | 19,268,638 | +2.0 |
| West Virginia | 7,218,863 | 8,330,547 | +15.4 |
| Wisconsin | 27,818,838 | 48,742,085 | +75.1 |
| Wyoming | 2,461,262 | 2,876,280 | +16.9 |

which 49 agencies paid benefits for a varying number of months, over \$625,000,000 had been paid to unemployed individuals. About \$236,000,000 of the total was paid in two States—New York and Pennsylvania.

Despite this necessarily limited analysis of the brief unemployment compensation experience, several observations having a bearing on considerations relating to modification of the financial structure may be made. The extreme differences in the financial drains within the same period clearly indicate that the problem of

the unemployment compensation reserve can be solved only by careful analysis of the labor market and employment pattern of the area to which an unemployment compensation plan applies. (See table 4, which gives a comparison of receipts and payments.) Since the reserve is determined by the inflow of funds (contribution rate related to pay rolls) as compared with disbursements in the form of benefit payments (related to levels and trends of unemployment), any modification of the financial structure must give consideration to both influences. The differences among the States in the condition of their reserves after a year and a half of benefit experience bear a close relation to fluctuation in employment and earnings of workers in those States. Benefit payments in the first few months of 1938 were frequently made to workers who had become unemployed during the latter months of 1937 and had failed to be reemployed. Consequently, it is difficult to draw an exact relation between employment fluctuations and benefit payments during this period. The initial stages of benefit payments are always influenced by a backlog of unemployment already accumulated.

Unfortunately, adequate employment and pay-roll data by industries and by States for purposes of this analysis are not now available for an extended period. As part of the information needed in connection with administration of unemployment compensation laws, the State agencies have been obtaining these data from subject employers. The Social Security Board has provided in its statistical reporting program for the collection, tabulation, and analyses of these employment and pay-roll data. This information is now available by months for 1938 from almost all States.

An examination of these reports reveals wide variations in the stability of employment among the States during 1938. Those States which added large increments to their reserves during the period of benefit payments were also the States where the declines in employment were least marked. During the first half of 1938, for example, employment in the District of Columbia, California, Louisiana, and Texas remained at relatively high levels. It is quite probable that were data available for a longer period, such slight declines as did occur would be found to be essentially seasonal in character. In contrast to this experience, steady declines in employment occurred from the already greatly reduced levels reached at the close of 1937 in the States confronted with severe drains on reserves. Furthermore, while fairly sharp State-wide reductions were registered in many instances during the first half of 1938, the declines in some of the major industries were somewhat more pronounced. In Rhode Island, for example, average employment during the first 6 months of 1938 was 20 percent lower than for the corresponding period of 1937. Employment in textile mills in 1938, however, representing nearly a third of total employment in the State, was,

during the first 6 months of 1938, 24 percent below the monthly average for 1937. The decline in the level of employment would be even more sharply emphasized, if comparison could be made with the first half of 1937 for which data are not available. In Maine, over half of the employment is concentrated in manufacturing, which is dominated by the textile, paper, and shoe industries. These groups comprised about 40 percent of total employment in this State. Employment in textile and paper declined almost continuously throughout the first 6 months of 1938, the average for the last 3 months representing a decrease of 14 percent from January. Although the shoe industry showed a relatively sharp pick-up in the spring months, employment in this industry had receded to the low point for the 6 months, by June.

The Utah experience reflected mainly the steady reduction of employment in the metal mines and in the railroad industry. The level of employment in metal mining during the first half of 1938 was 15 percent below the corresponding period in 1937. In West Virginia, the pattern of employment is dominated by bituminous mining, chemicals, stone, clay, and glass, and the iron and steel industries, these groups comprising over half of the employment in the State. Rather sharp reductions in employment occurred in these groups in the fourth quarter of 1937, but decreases were most pronounced during the first half of 1938. Employment in the bituminous-coal industry was nearly 14 percent lower than in the first half of 1937; in chemicals, 34 percent lower; in stone, clay, and glass, 26 percent lower; and in iron and steel the decrease amounted to nearly 17 percent. Wage losses were even more pronounced, particularly in the coal,

iron, and steel industries, where spread-work programs had been developed, which accounted for a considerable volume of benefits for partial unemployment.

In State systems of unemployment compensation, therefore, the size of the reserve must be determined by the character of the employment pattern in a given State. This approach clearly indicates that certain States with stable or expanding employment may look forward to a reduction in contribution rates, but only if provisions for adequate benefit payments have been made. In other States the present 2.7 percent of pay rolls may prove to be inadequate to meet the drains resulting from sharp and frequent fluctuations in employment, especially if industrial diversification is lacking and if benefit payments are liberalized.

A plan which permits variations in contribution rates among the several States gives rise to a serious difficulty in that it may develop competitive disadvantages between States and industries and so destroy the major objective of the tax-offset device. An equally important consideration is that such a plan tends to perpetuate existing benefit standards, if not to lower them, so that rigidities are introduced in a system which should be characterized by flexibility. Finally, such a plan makes difficult the establishment of some kind of broad equalization or reinsurance scheme to assure the continuation of benefit payments in States where severe unemployment, occurring during certain phases of the business cycle, might quickly exhaust the fund which had been accumulated to meet just such an emergency. Indeed it may be contended that a prerequisite to reduction in contribution rates might well be the creation of an equalization fund for reinforcing the solvency of State systems.

Table 4.—Comparison of Contributions Deposited and Benefits Charged, by Quarters, January 1938-June 1939, for 23 States in Which Benefits Were Payable in January 1938
(In thousands)

| State | Total January 1938-June 1939 | | January-March 1938 | | April-June 1938 | | July-September 1938 | | October-December 1938 | | January-March 1939 | | April-June 1939 | | Relation of benefits charged to contributions deposited | | |
|---------------------------|------------------------------|-----------|--------------------|-----------|-----------------|-----------|---------------------|-----------|-----------------------|-----------|--------------------|-----------|-----------------|----------|---|-----------------------|--------------|
| | Contributions | Benefits | Contributions | Benefits | Contributions | Benefits | Contributions | Benefits | Contributions | Benefits | Contributions | Benefits | Contributions | Benefits | January 1938 | January-December 1938 | January 1939 |
| Total..... | 2,078,038 | 5,635,738 | 883,880 | 2,643,354 | 911,608 | 2,115,011 | 1,124,318 | 2,995,040 | 1,118,000 | 2,282,231 | 832,130 | 2,765,001 | 1,002,131 | 2,78,862 | 87.4 | 74.3 | 71.7 |
| Alabama..... | 10,787 | 10,370 | 696 | 1,322 | 1,854 | 2,644 | 1,685 | 2,512 | 1,832 | 3,650 | 2,322 | 1,117 | 2,027 | 1,126 | 124.5 | 124.9 | 86.4 |
| Arizona..... | 2,008 | 2,740 | 323 | 381 | 344 | 800 | 616 | 601 | 601 | 428 | 503 | 426 | 431 | 408 | 125.3 | 106.6 | 84.9 |
| California..... | 100,288 | 62,974 | 8,221 | 2,004 | 14,963 | 6,074 | 18,240 | 7,078 | 18,668 | 6,781 | 20,898 | 8,741 | 17,324 | 18,418 | 26.3 | 38.2 | 42.7 |
| Connecticut..... | 21,178 | 15,300 | 1,888 | 2,757 | 2,443 | 2,780 | 2,037 | 2,226 | 2,787 | 1,321 | 4,853 | 1,715 | 5,011 | 1,340 | 137.2 | 85.1 | 72.2 |
| District of Columbia..... | 9,320 | 2,329 | 1,348 | 340 | 1,815 | 871 | 1,505 | 426 | 1,604 | 428 | 1,000 | 507 | 1,000 | 840 | 20.5 | 22.9 | 25.8 |
| Idaho..... | 13,542 | 7,880 | 2,100 | 940 | 2,122 | 1,160 | 2,282 | 1,223 | 2,294 | 1,175 | 2,426 | 1,236 | 2,300 | 1,710 | 84.2 | 44.9 | 51.0 |
| Illinois..... | 5,188 | 4,455 | 882 | 821 | 900 | 1,848 | 947 | 974 | 907 | 972 | 1,006 | 1,067 | 888 | 808 | 206.8 | 152.2 | 125.0 |
| Maryland..... | 16,302 | 13,483 | 2,222 | 2,389 | 2,450 | 2,265 | 2,737 | 2,481 | 2,750 | 1,702 | 2,283 | 2,748 | 2,748 | 1,610 | 123.0 | 99.9 | 82.8 |
| Massachusetts..... | 54,811 | 87,220 | 6,164 | 5,645 | 10,868 | 7,116 | 10,889 | 8,880 | 8,840 | 8,949 | 9,708 | 5,020 | 8,940 | 4,109 | 75.9 | 75.4 | 65.2 |
| Minnesota..... | 29,194 | 12,294 | 1,841 | 1,300 | 5,234 | 2,601 | 2,406 | 1,837 | 3,558 | 1,413 | 3,825 | 3,185 | 2,282 | 2,078 | 95.8 | 67.6 | 69.8 |
| New Hampshire..... | 4,028 | 3,805 | 607 | 654 | 680 | 1,004 | 690 | 679 | 787 | 401 | 771 | 285 | 613 | 484 | 127.0 | 86.6 | 80.5 |
| New York..... | 278,441 | 182,612 | 21,014 | 12,652 | 33,347 | 23,086 | 28,340 | 26,812 | 23,638 | 12,978 | 21,661 | 22,739 | 16,822 | 22,444 | 85.2 | 88.7 | 70.5 |
| North Carolina..... | 16,326 | 10,327 | 2,245 | 1,480 | 2,380 | 3,324 | 2,481 | 2,200 | 3,648 | 1,157 | 2,824 | 1,601 | 8,720 | 1,210 | 122.7 | 84.0 | 71.4 |
| Oregon..... | 9,248 | 8,658 | 1,283 | 1,501 | 1,432 | 2,267 | 1,581 | 1,124 | 1,632 | 585 | 1,688 | 1,652 | 1,688 | 1,031 | 137.0 | 86.4 | 93.8 |
| Pennsylvania..... | 108,587 | 106,441 | 15,658 | 14,771 | 17,826 | 22,446 | 17,558 | 26,428 | 18,315 | 12,457 | 20,662 | 18,172 | 18,046 | 18,723 | 110.4 | 102.2 | 94.7 |
| Rhode Island..... | 11,502 | 12,112 | 1,872 | 3,793 | 2,081 | 3,147 | 1,991 | 1,912 | 2,273 | 841 | 1,170 | 1,160 | 2,297 | 1,581 | 105.8 | 112.9 | 104.5 |
| Tennessee..... | 11,326 | 8,526 | 824 | 1,145 | 1,914 | 2,227 | 1,929 | 1,708 | 2,060 | 1,036 | 2,263 | 1,123 | 2,087 | 1,349 | 122.7 | 90.9 | 78.9 |
| Texas..... | 89,184 | 10,283 | 5,292 | 1,175 | 5,373 | 2,628 | 5,785 | 2,413 | 5,286 | 2,726 | 4,190 | 3,223 | 5,473 | 2,468 | 84.7 | 45.0 | 45.6 |
| Utah..... | 5,444 | 3,488 | 319 | 729 | 593 | 861 | 628 | 454 | 623 | 278 | 735 | 572 | 646 | 484 | 127.0 | 117.0 | 108.7 |
| Vermont..... | 2,179 | 1,184 | 263 | 293 | 393 | 248 | 352 | 168 | 392 | 117 | 281 | 202 | 249 | 161 | 81.1 | 88.1 | 54.4 |
| Virginia..... | 12,483 | 8,280 | 1,217 | 787 | 2,223 | 1,811 | 2,836 | 3,421 | 2,412 | 986 | 2,720 | 1,220 | 2,424 | 1,389 | 73.7 | 68.0 | 61.6 |
| West Virginia..... | 12,793 | 14,601 | 2,117 | 3,719 | 2,900 | 5,241 | 2,161 | 2,933 | 2,441 | 1,163 | 2,723 | 1,284 | 2,123 | 1,052 | 154.1 | 135.1 | 104.6 |
| Wisconsin..... | 25,428 | 11,583 | 4,194 | 3,576 | 2,585 | 3,245 | 4,045 | 3,481 | 4,148 | 1,806 | 4,617 | 1,230 | 3,290 | 768 | 63.1 | 57.8 | 66.4 |